

Recommendation:
BUY (BUY)

Risk:
Medium (Medium)

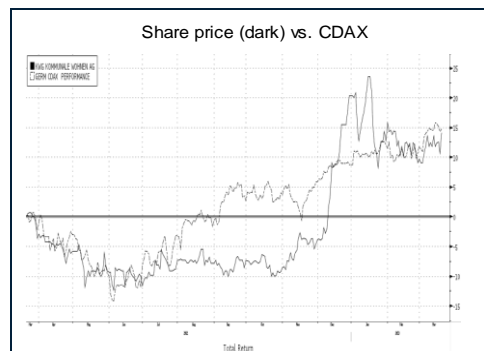
Price Target:
EUR 8.30 (8.30)

20 March 2013

FY 2012 key figures above our estimates

Conwert recently raised its stake in KWG to 76%

- Today, KWG reported preliminary FY 2012 key figures which were above our estimates, in particular on net income level.
- Sales increased by 28.8% to EUR 27.9m (PY EUR 21.7m) while net income was boosted by 373.6% to EUR 46.5m (PY EUR 9.8m) due to property valuation gains of EUR 41.6m. The main part of these valuation gains stemmed from a first-time consolidation gain of the "Tower" portfolio which was acquired at the end of December 2012. FFO of EUR 2.3m virtually reached the company guidance of EUR 2.4m.
- Net rental income, which is included in sales, rose by 33.8% to EUR 19.8m (PY EUR 14.8m). The increase was achieved by vacancy reductions, rent increases and portfolio expansion.
- Vacancy in the core portfolio was reduced to an impressive 1.6% from an already low 2.7% in the previous year. In terms of portfolio expansion, KWG acquired BWAG (approx. 1,400 units) and the "Tower" portfolio (approx. 2,900 units) in FY 2012. BWAG was acquired in 1H 2012 and contributed partially to the increase in net rental income while the "Tower" portfolio will contribute from FY 2013E onwards to net rental income.
- Conwert recently increased its stake in KWG from 60% to 76%. This could raise questions about the future of KWG, also against the background that Mr. Efremidis, former CEO of KWG, became member of conwert's management board when conwert acquired 60% of KWG end of 2012. On the other hand, conwert could make bigger deals possible for KWG and the operating business goes well. Additionally the "Tower" portfolio offers further rent increase potential by reducing the high vacancy rate of 24%.
- KWG is operationally well on track and trades at a high discount of almost 40% to balance sheet NAV. In view of the released key figures FY 2012, we increase our earnings estimates and reiterate our BUY recommendation with an unchanged price target of EUR 8.30.



Source: CBS Research AG, Bloomberg, KWG

Change	2012P		2013E		2014E	
	new	old	new	old	new	old
Sales	27.9	-	40.2	38.6	40.6	38.6
EBIT	-	-	18.8	18.3	19.2	18.6
EPS	3.23	-	0.31	0.28	0.34	0.30

www.kwg-ag.de

Sector: Real Estate

WKN: 522734

ISIN: DE0005227342

Reuters: BIWG.DE

Bloomberg: BIW GY

Short company profile:

The business of KWG comprises the acquisition and long-term holding of German residential real estate, either directly or through the acquisition of companies, particularly municipal and cooperative housing companies.

Share data:

Share price (EUR, latest closing price):	6.09
Shares outstanding (m):	15.9
Market capitalisation (EUR m):	96.7
Enterprise value (EUR m):	238.3
Ø daily trading volume (3 m., no. of shares):	16,770

Performance data:

High 52 weeks (EUR):	7.15
Low 52 weeks (EUR):	4.71
Absolute performance (12 months):	14.1%
Relative performance vs. CDAX:	
1 month	-1.1%
3 months	-2.2%
6 months	12.0%
12 months	-0.6%

Shareholders:

conwert	76.0%
Free float	24.0%

Financial calendar:

Final figures FY 2012 22 April 2013

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Key data

FY 12/31, EUR m	2009	2010	2011	2012P	2013E	2014E
Sales	19.8	19.8	21.7	27.9	40.2	40.6
EBIT	9.0	16.6	18.4	-	18.8	19.2
Net result	3.3	8.6	9.8	46.5	5.0	5.3
EPS	0.38	0.87	0.91	3.23	0.31	0.34
DPS	0.00	0.00	0.00	0.00	0.00	0.00
Gross margin	69.4%	79.0%	79.4%	-	72.1%	72.4%
EBIT margin	37.7%	56.0%	54.0%	-	40.7%	40.8%
ROE	5.5%	12.0%	11.8%	-	3.0%	3.2%
ROA	4.9%	8.4%	8.3%	-	4.5%	4.5%
Gross debt LTV	67.3%	63.1%	59.9%	57.4%	62.6%	61.2%
Price / NAV	0.72	0.71	0.60	-	0.58	0.57
EV/EBIT	17.3	10.0	10.1	-	12.7	12.4
P/E	12.4	5.9	5.4	2.1	19.4	18.1

Source: KWG Kommunale Wohnen AG, CBS Research AG

KWG Kommunale Wohnen AG

Profit and loss y/y comparison

	IFRS	EURm	2H 2010	2H 2012	change	% change	2011	2012P	change	% change
Sales			9.94	15.18	5.24	52.7%	21.66	27.90	6.24	28.8%
<i>thereof Net Rental Income (NRI)</i>			<i>n.a.</i>	<i>10.80</i>	<i>n.m.</i>	<i>n.m.</i>	<i>14.80</i>	<i>19.80</i>	<i>5.00</i>	<i>33.8%</i>
Revaluation result from investment properties			9.60	33.37	23.77	247.5%	8.75	41.60	32.85	375.3%
Net income attributable to shareholders			8.06	26.11	18.06	224.2%	9.82	46.50	36.68	373.6%
as % of total revenues			41.1%	-			28.9%	-		
Shares outstanding (in millions)			9.8	15.9			10.8	14.4		
Earnings per share (EUR)			0.82	1.64	0.83	101.0%	0.91	3.23	2.32	255.3%

Source: CBS Research AG; KWG Kommunale Wohnen AG

KWG Kommunale Wohnen AG

Profit and loss account

	IFRS	EURm	2009	2010	2011	2012P	2013E	2014E
Sales			19.8	19.8	21.7	27.9	40.2	40.6
YoY growth			44.2%	0.0%	9.6%	41.2%	85.6%	45.5%
Revaluation result from investment properties			4.0	9.6	8.8	41.6	5.6	6.1
Other operating income			0.2	0.3	3.6	-	0.3	0.3
Total revenues			23.9	29.6	34.0	-	46.1	47.0
COGS			-7.3	-6.2	-7.0	-	-12.9	-13.0
in % of total revenues			-30.6%	-21.0%	-20.6%	-	-27.9%	-27.6%
Gross income			16.6	23.4	27.0	-	33.3	34.0
in % of total revenues			69.4%	79.0%	79.4%	-	72.1%	72.4%
Personnel expenses			-1.5	-1.8	-2.3	-	-3.8	-3.9
in % of total revenues			-6.2%	-6.0%	-6.8%	-	-8.3%	-8.2%
Expenditure on investment properties			-3.7	-3.0	-3.4	-	-6.0	-6.5
in % of total revenues			-15.3%	-10.1%	-9.8%	-	-13.1%	-13.8%
Other operating expenses			-2.3	-1.9	-2.8	-	-4.4	-4.3
in % of total revenues			-9.7%	-6.3%	-8.1%	-	-9.6%	-9.1%
EBITDA			9.1	16.8	18.6	-	19.0	19.4
in % of total revenues			38.1%	56.5%	54.6%	-	41.2%	41.3%
Depreciation and amortisation			-0.1	-0.2	-0.2	-	-0.2	-0.2
EBIT			9.0	16.6	18.4	-	18.8	19.2
in % of total revenues			37.7%	56.0%	54.0%	-	40.7%	40.8%
Financial result			-5.8	-5.8	-6.4	-	-12.1	-12.0
EBT			3.2	10.7	11.9	-	6.7	7.2
in % of total revenues			13.5%	36.3%	35.1%	-	14.4%	15.3%
Taxes			0.1	-2.2	-2.1	-	-1.7	-1.8
as % of EBT			2.7%	-20.1%	-17.7%	-	-25.4%	-25.6%
Net income including minorities			3.3	8.6	9.8	-	5.0	5.3
Minority interests			0.0	0.0	0.0	-	0.0	0.0
Net income attributable to shareholders			3.3	8.6	9.8	46.5	5.0	5.3
in % of total revenues			13.9%	29.0%	28.9%	-	10.8%	11.4%
Shares outstanding (in millions)			8.6	9.9	10.8	14.4	15.9	15.9
Earnings per share (EUR)			0.38	0.87	0.91	3.23	0.31	0.34

Source: CBS Research AG; KWG Kommunale Wohnen AG

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Recommendation history over the last 12 months for the company analysed in this report:

Date	Recommendation	Price at change date	Price target
20 March 2013	BUY	EUR 6.09	EUR 8.30
21 December 2012	BUY	EUR 6.12	EUR 8.30
7 November 2012	BUY	EUR 5.09	EUR 7.90
17 August 2012	BUY	EUR 5.07	EUR 7.90
03 August 2012	BUY	EUR 5.11	EUR 7.90

26 July 2012	BUY	EUR 5.03	EUR 7.10
28 June 2012	BUY	EUR 4.92	EUR 7.00

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